

Management of Remittances and their role in Economic Development in Kosovo

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Abstract - In the Republic of Kosovo remittances have been and continue to be one of the contributors to economic development and have served as a source of household income. Remittances at the national as well as at the global level are an essential element of combating poverty, and can be said to represent one of the largest flows of financial resources at the global level. The main purpose of this article is to analyze the impact of remittances on economic growth, present the comparability of remittance trends over the years, remittance management, in the Kosovo case. The findings of the study should serve as an important input in improving the management of remittance policies and strategies by the Kosovo government in order to increase the impact of remittances on Kosovo's economic development. Trend analysis shows that remittances in Kosovo continued to grow steadily from 2005 to 2018; remittances were greater in 2015 worth € 772 million, one of the main reasons for remittances to Kosovo, results to be the support of the households, while the largest share of Kosovar emigrants' investments was in the construction sector, where investment in the sector was over 40%.

Keywords: Remittance; Management, Economic growth; General Welfare; Other

JEL classification: F24; M12; O40; I31; M19

1. INTRODUCTION

The impact of remittances on economic development goes beyond what official balance of payments statistics suggest, both for the sending and receiving countries. International migration is a multidimensional phenomenon that has had and has socio-economic impacts on the surroundings of the country of origin and destination. The impact of remittances in Kosovo is important because they constitute an additional source of income for host families. Analyses show that remittances have played a positive role in Kosovo's economic growth and social improvement. The nature of remittances, their volume, their frequency, their impacts and the factors that influence their importance have prompted many researchers to deal with this source of income socially, economically and politically. Remittances in Kosovo alone over the last nine years, including the period 2009 - 2018, through banking channels amount to 6 billion euros. Remittances in Kosovo have provided significant support in economic development and in improving the social aspect since the 1970s. The most significant support for remittances has been in the social aspect of the country, especially for households for which it had been the only source of income. The role of remittances in households has contributed to improved living conditions and has contributed to alleviating unemployment and increasing

the income. In the last year, Kosovo is the fourth largest economy in the region, Europe and Central Asia, with the share of remittances in GDP being around 15.9%. Kyrgyzstan, Tajikistan, and Moldova have higher share of remittances in GDP than Kosovo, affecting the increase of inactive power (World Bank Group, 2018)[21]. In addition, the study on remittances aims to provide information that will serve or contribute to the formulation of sustainable policies and strategies for the economic development of the country that will affect maximizing the effect of remittances in Kosovo. One of the main factors affecting immigration is the high unemployment rate in Kosovo, according to the results of the Labor Force Survey (LFS) for 2018, the unemployment rate turns out to be 29.6% while the employment rate turns out to be 28 %. The highest unemployment rate among females is 33.4%, compared to males, 28.5%. The highest unemployment rate is in the age group of 15-24 with 55.4% (KAS, 2019)[15]. The following article presents a theoretical overview of the role of remittances in terms of economic development, immigration and immigration trends, the effect of remittances on economic development, remittance receipt trends across the years including the time period from 2005 to 2018, management and effects of remittances, correlations between GDP and remittances and conclusions, recommendations and references, that are presented by the end of the article.

2. LITERATURE REVIEW

Remittances are globally considered to be the second most important financial flows after international aid. Studies in the field of remittances have played a significant role in economic development and social improvement. Remittances strongly influence the increase in household income and also the increase in the standard of living of the population in the beneficiary country (Taylor & Wyatt, 2006)[19]. The earliest roots of immigration are thought to have dated about 1.8 million years ago, when Homo erectus migrated from Africa over the Levant corridor. The word "migration" is derived from the Latin word "migratio" which means physical displacement of people. The terminology distinguishes between the word emigration used in the country of origin and the word "immigration" used in the host country. International migration is about the movement of individuals from one sovereign territory to another. The origins of modern immigration date back to the early 19th century and are widespread today. All factors and motives that lead to immigration are divided into push factors and pull factors. The push factors are the reasons that motivate people to leave a certain country, where one of them may be economic difficulties, bad political situation, unemployment, natural conditions, etc. The pull factors are those causes that drive and motivate people to move to a particular destination (Everett S. Lee, 1966)[9]. There are numerous theories and studies that explain and analyze international and domestic migration; there are theories that present this phenomenon in a positive light and other theories that present it in a negative light. Immigration solves social problems by alleviating unemployment, alleviating poverty, providing economic support, professional capacity building or quality enhancement obtained from developed countries. It occurs from a cultural, educational or artistic point of view (Smith, 2007)[18]. Immigration plays an important role in the transfer of capital investment and accelerates the exposure of traditional communities to liberal, rational, democratic ideas and modern knowledge (Nickell & Saleheen, 2008)[17]. Getting higher salaries into host countries means that marginal production in these countries is higher than in the country of origin, this affects the relocation of people to these countries leading to an increase in global output worldwide (Krugman & Obstfeld, 1991)[10].

3. METHODOLOGY

The methodology of the study is based on a broad dimension in the reviewed theoretical and empirical literature. In order to achieve the main objective of this article, different data sources as well as different methods of analysis have been used, comparative methods have been used, in which comparisons of the performance of intermittent remittances have been made, econometric analysis in which the strength of the relationship between the independent remittance variable and the GDP

dependent variable, which is presented through correlational analyzes. Also, there is an analysis of the effect of remittances management on economic development, etc. During the research work, although the efforts made were not lacking, we were still faced with limitations such as lack of comprehensive data, intermittent data series, and so on.

4. IMMIGRATION AND REMIGRATION TRENDS IN KOSOVO

International migration, according to available data, is estimated to be that of more than 550,000 Kosovar residents who have emigrated from Kosovo since 1969. The balance of international migration (net migration) to Kosovo in 2017 was less than 5,000. For the period 2012 - 2017 it is estimated that Kosovo has lost 128,088 inhabitants (Kosovo Agency of Statistics, 2018)[12]. The biggest trend of emigration in Kosovo was in 2015 with about 74,434 Kosovar people, which you can see through figure 1.

Figure 1. Emigration and Remigration Trends in Kosovo, 2012-2017

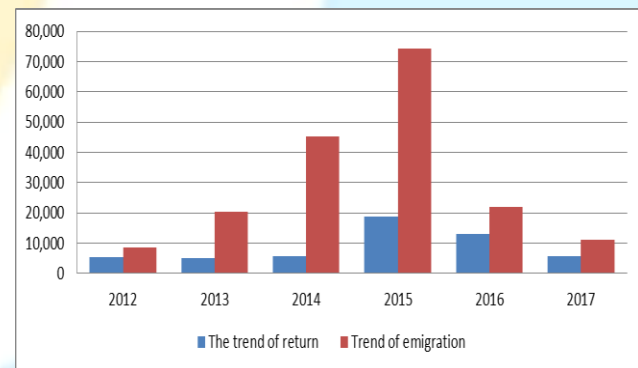


Table 1. Table captions should be placed above the table

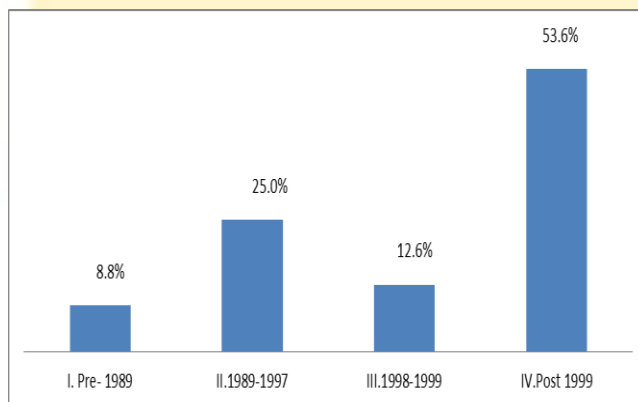
| Graphics | Top | In-between | Bottom |
|----------|------|------------|-----------|
| Tables | End | Last | First |
| Figures | Good | Similar | Very well |

Source: Author data processing, based on 2012-2017 population census data

According to the above figure it results that the balance of international migration (net migration) in Kosovo for 2017 was -5,431 inhabitants or -0.30% of the resident population. For the period 2012 - 2017 it is estimated that Kosovo has lost 128,088 inhabitants or about 7.15% of the country's population. While in terms of immigration for the period 2012-2017, the data show that a significant number of persons who have immigrated during these years are mainly Kosovars (returned / readmitted migrants), with an annual average of 8,775 persons or 0.49% of the population within a year. Kosovo's decision-making institutions need to increase the scale of the system of managing return cases from abroad, so through an efficient

electronic system to manage all cases related to repatriated persons. Through this system the process of reintegration of repatriated persons must be fully managed from the moment of entry into the country, respectively in Kosovo, until the conclusion of the case that has been filed in accordance with the procedures and political and legal definitions. Based on the analysis of the emigration by period, using the data of the Household Remittance Survey 2011, based on the waves of emigration it turns out that in Kosovo the highest percentage of heads of households who emigrated abroad was after 1999 or expressed in percentage 53.6%. You can see these changes through (Figure 2). After that the wave of emigration was higher between 1989 and 1997 or expressed as a percentage by about 25.0% (UNDP, 2012)[20]. According to 2015 population census data, despite the positive natural population growth of 22,232 inhabitants due to international migration, the resident population of Kosovo for the period January 1 - December 31, 2015 decreased by -33,340. Kosovo's population for 2015 is estimated to be 1,771,604, resident (Bellaqa, B., Kastrati, A., Sojeva, A., Tahiri, E., Berisha, V., 2016)[4].

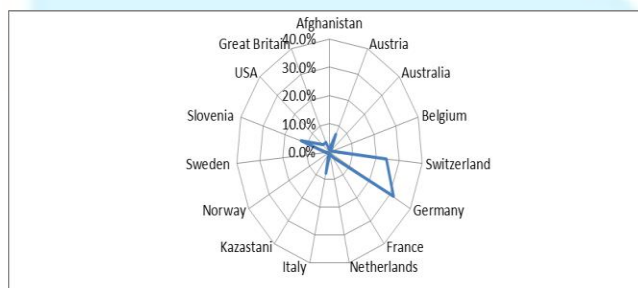
Figure 2. Migration waves from 1989 -1999



Source: UNDP (2012) Kosovo Remittance Study

Regarding the host countries of Kosovar immigrants, the largest percentage of Kosovars who live and work abroad are in Germany or around 31.7%, followed by Switzerland with about 24.6%, then in Slovenia with 7.7%, while other immigrant host countries receive a smaller percentage; see Figure 3, (Kosovo Agency of Statistics, 2013)[13].

Figure 3. Destination countries of Kosovar emigrants

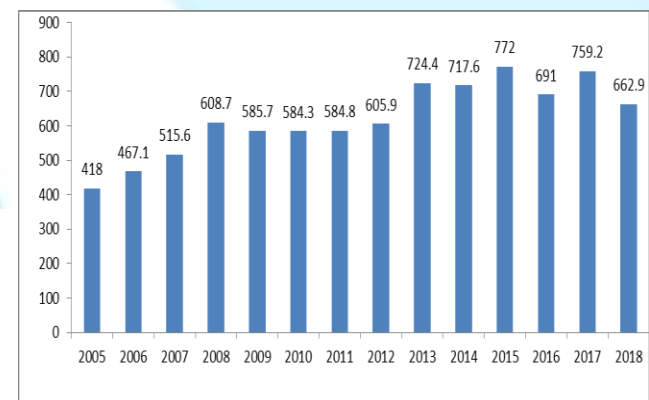


Source: Distribution of Kosovar emigrants by country, by the author based on data from the Kosovo Remittance Study 2013. In terms of emigration, there are many factors that influence it, such as the economic, political and social factors. Man is just like any other living being, where there are better conditions, better standards, better incomes, better education, and other issues, he is able and willing to move. This phenomenon is not only in the state of Kosovo; emigration exists in all countries. Emphasizing that Kosovo is distinguished by the population of the countries of the region, by age group. The dominant age group in terms of emigration is the 30-34 age group, which is known to belong to the labor force (Bellaqa, B., 2016) [11].

5. REMITTANCE RECEPTION TRENDS IN KOSOVO DURING 2005-2018

Remittances in Kosovo have been and continue to be one of the most important contributors to the country's economic and social development, with estimates suggesting that a quarter or more of households have a family member living abroad. One of the other important sources of households in Kosovo is remittances, which account for about 8% of total household income (KAS, 2018)[12]. Based on statistics on the Kosovar population living in the diaspora, it turns out that around 700,000-800,000 people born in Kosovo currently live abroad (UNDP, 2014) [13]. The official definition of remittances used by the World Bank for statistical purposes is different. According to the World Bank, "Remittances are current transfers from immigrants who are considered resident in the country of destination (World Bank, 2011)[14]. In 2018, remittances in Kosovo amounted to EUR 662.9 million, comparing with remittance revenues for 2017, this shows that there is a 12.6% decline in remittances. In 2005, annual remittance revenues were 418 million euros, since 2006 Kosovo's remittances have increased slightly, if we compare revenues from 2005 to 2018 it turns out that greater remittances were in 2015 with about 772 million euros per year. (Bellaqa, B., Bajrami., H, 2019) [15].

Figure 4. Remittance revenues in Kosovo 2005-2018 (in EUR millions)



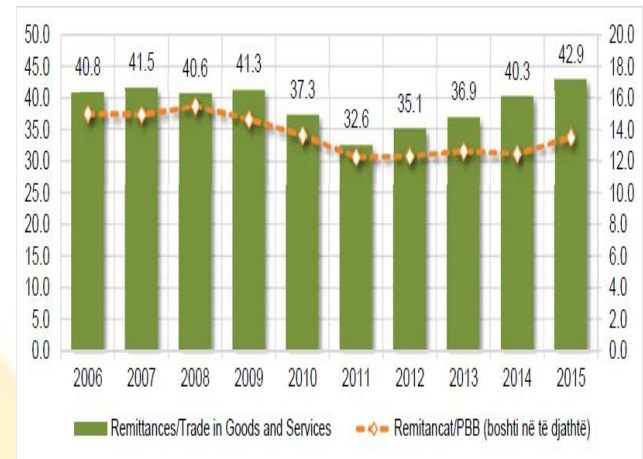
Source: IJFBS (2019). Foreign Direct Investment, Management and Their Role in Economic Development - Kosovo Case

According to the 2015 Household Budget Survey data, public sector salaries have been the most important source of income in Kosovo, and private sector salaries as another important source for about one fifth of households. Other important sources are pensions and household businesses. Remittances are very valuable for about 9 percent of households (Kosovo Agency of Statistics (2016) [16].

6. MANAGEMENT AND EFFECT OF REMITTANCES ON THE ECONOMY

Taking into account the situation and economic development in Kosovo, remittances have served as a very important pillar for the country's economic development and social development. Kosovo's economy has seen positive growth rates in the last decade, despite the challenges posed by the fluctuations in the global and especially the European economy. According to the Kosovo Agency of Statistics (KAS) data for 2018 Gross Domestic Product (GDP) we notice that the current domestic price level in 2018 was Euro 6,725.9 million, while real GDP growth in 2017 compared to 2018 was 3.82%. Regarding GDP per capita for 2018 was 3, 746 euros (Kosovo Statistical Agency, 2019)[15]. According to the data, Kosovo has a low GDP value at the country level, also the GDP per capita is still low compared to the countries in the region and beyond as well. Remittances can positively impact the economy resulting in increased savings, increased investment, increased consumption, reduced unemployment, reduced poverty, etc. affecting GDP as well as the level of economic growth. Remittances to Kosovo from 2006-2015 averaged 650m euros on an annual basis according to the Central Bank of Kosovo (CBK). Kosovo is ranked among the countries with the highest percentage of remittances impact on GDP in 2014 and 2015, where in 2014, the impact of remittances on GDP was 16.1%, while in 2015, the impact of remittances on GDP was 13%. Analyzing the macroeconomic aspect remittance has a significant importance as it covers over 40% of Kosovo's trade deficit (CBK, 2016) [7].

Figure 5. Percentage of remittances as a share of GDP and trade balance deficit, 2006-2015



Source: CBK (2015), Annual Reports

Most of the remittances are concentrated in the construction sector with 47.2%, followed by real estate purchasing with 26.4%, agriculture with 9.7% and other investments; as in recreation, the processing industry and others are involved with a smaller percentage (KAS, 2013)[19]. Regarding the origin of remittances, the main contributing countries are Germany, Switzerland, Italy, Austria and the USA. Of the total remittances sent to Kosovo in 2017, the remittances are received from Germany 39.3%, Switzerland 22.5%, Italy 4.4%, Austria 3.8% and the US 6.9%. The share of total remittances sent from the US from 4.3% in 2013 increased to 6.9% in 2017 while from Austria decreased from 5.9% in 2013 to 3.8% in 2017 (CBK, 2018)[20]. In order for remittances to have a greater positive effect on the country's economy, it is important for them to be invested in opening new businesses, expanding existing businesses, and so on. Remittances in Kosovo are, in most cases, used for consumption and have a direct impact on meeting the daily needs of the country's population. The income distribution within households receiving remittances, according to remittance receipts, is mainly directed to their basic consumption. Expenditures on food, lodging, non-food items, education, clothing, furniture and health cover about 78% while the rest of about 22% is distributed among other groups (KAS, 2013) [11].

7. CORRELATION BETWEEN GROSS DOMESTIC PRODUCT AND REMITTANCES

Remittances are an important economic and social parameter. Remittances are a key issue in economic discussions and at the same time an extremely intensive area of research. Correlational analyzes were used in this article to measure the strength of the relationship between the independent variable Remittance (X) and the GDP dependent variable (Y). The result of the correlational study is obtained by the correlation coefficient. The correlation coefficient values are between - 1 and + 1. Its + 1 value indicates that both variables are in complete linear relation and in the same direction which means that all points lie in a straight line with coefficient positive angle. Whereas the value - 1 of the correlation coefficient indicates that the variables are in complete linear relation and in the opposite direction. For correlation analyzes, it has been argued that the correlation coefficient is a summary measure describing the degree of the statistical relationship between two variables; the dependent variables and the independent variables (Leroux, 2009)[16]. Indicators of the Correlation Analysis of Remittances and GDP are presented by the Correlation Coefficient (r), the Determination Coefficient (r^2) and Alliance / the Contingency Coefficient (ka). On the basis of correlational analyzes we analyze the impact of Remittances on GDP. For Remittances and GDP, the correlation analysis covers the ten-year period from 2009 to 2018.

Table 2. Data are expressed in EUR millions over the period 2009 - 2018

| Vite | Remitenca X1 | GDP Y1 | $X1 - \bar{X}$ | $(x1 - \bar{x})^2$ | $y1 - \bar{y}$ | $(y1 - \bar{y})^2$ | $(x1 - \bar{x}) * (y1 - \bar{y})$ |
|---------------|-----------------|--------------|----------------|--------------------|----------------|--------------------|-----------------------------------|
| 2009 | 585 | 4,022 | -83 | 6889 | -1,303 | 1697809 | 108,149 |
| 2010 | 584 | 4,204 | -84 | 7056 | -1,121 | 1256641 | 94164 |
| 2011 | 584 | 4,594 | -84 | 7056 | -731 | 534361 | 61404 |
| 2012 | 605 | 4,989 | -63 | 3969 | -336 | 112896 | 21168 |
| 2013 | 724 | 5,232 | 56 | 3136 | -93 | 8649 | -5208 |
| 2014 | 717 | 5,391 | 48 | 2304 | 65 | 4225 | 3120 |
| 2015 | 772 | 5,795 | 102 | 10404 | 469 | 219961 | 47838 |
| 2016 | 691 | 6,043 | 23 | 529 | 716 | 512656 | 16468 |
| 2017 | 759 | 6,326 | 91 | 8281 | 1,001 | 1002001 | 91091 |
| 2018 | 662 | 6,658 | -6 | 36 | 1,333 | 1776889 | -7998 |
| Totali | 668 | 5,325 | 0 | 49660 | 0 | 7126088 | 430196 |

$$r = \frac{\sum(x1 - \bar{x}) * (y1 - \bar{y})}{\sqrt{\sum(x1 - \bar{x})^2 * \sum(y1 - \bar{y})^2}} =$$

$$r = \frac{430196}{\sqrt{49660 * 7126088}}$$

$$= \frac{430196}{594879.42} = 0.73$$

Covariance - The covariance of choice is defined as follows:

$$S_{xy} = \frac{\sum(x1 - \bar{x}) * (y1 - \bar{y})}{n - 1}$$

To measure the strength of the linear relationship between FDI and Export, we calculate the covariance of choice according to the following formula:

$$S_{xy} = \frac{\sum(x1 - \bar{x}) * (y1 - \bar{y})}{n - 1} = 430196 / 10 =$$

43019.6

Correlation coefficient

The correlation coefficient is $r = 0.73$. From this we see that we have a positive average correlation, and that there is a positive average correlation between Remittances and GDP.

Source: Data processed by the authors based on the data of the Kosovo Statistical Agency on GDP data and the Central Bank of Kosovo data on remittances for 2009-2018

Determination coefficient:

$r^2 = (0.73)^2 = 0.5329$ From here it results that 53.29% of the Remittances variation is explained by the variation of GDP.

Alliance coefficient:

$Ka = 1 - r^2 = 1 - 0.5329 = 0.4671$ It results that 46.71% are other unexplained factors affecting Remittances.

8. CONCLUSION AND RECOMMENDATIONS

Remittances at the country level as well as at the global level have played an important role in economic and social development. Remittances from the Kosovar diaspora have had a significant impact on economic growth and on improving the welfare of the population. The nature, volume, frequency and impact of migrant income on the social and economic aspects of a country is of great importance and has attracted the attention of researchers globally. In accomplishing this article, we have been faced with a lack of comprehensive data which has led to the presentation of a more comprehensive remittance analysis. It is a fact that not all of the determining factors identified by the remittance literature can find use in Kosovo's circumstances, and this is largely due to a lack of data. According to official data published by the Statistical Agency of Kosovo, Kosovo is facing a high unemployment rate, ergo migration has aggravated this pressure on the labor market; the balance between income and output in the work market in Kosovo has a high degree of discrepancy. The largest percentage of remittances is directed to the construction sector, then to real estate purchasing, to the agricultural sector, while other investments such as recreation, processing industry and other industries are included in a small percentage. Remittances are mainly focused on basic consumption, which is why the remittances should be more economically focused, such as in development projects, etc. According to the Migration Strategy and National Action Plan for Sustainable Reintegration of Repatriated Persons in Kosovo 2018-2022, the strategy given represents the increase of support for economic development as one of the objectives for migration. The strategy should have greater clarity as to the actions that need to be taken in implementing development migration policies. It is necessary to reduce the cost of transfers, the creation of development funds, cooperation between governments, the increase of credit volume, etc. To undertake periodic surveys of remittances in order to see their economic and social impacts and thus the state to have a clearer picture

of remittance management, also the ongoing and uninterrupted data will contribute to the establishment of statistical models. The lack of perspective in the country and the lack of offers from the country are one of the main reasons why the population emigrates especially the working age population, so as a result of not having a perspective they see themselves in western countries more. In recent years, in addition to the unemployed in Kosovo, people who are employed, but who are offered a higher wage, are also migrating. It is necessary to increase the level of policy management at the national level in order for the young population to stay in Kosovo and contribute to their home country. Particular importance should be given to the growth and diversification of exports, aiming for an export-oriented economy rather than a consumer economy of material goods produced by neighboring countries and beyond.

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